STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-127

March 5, 2003

MAINE PUBLIC UTILITIES COMMISSION
Inquiry Into Certain Issues Related to
Standard Offer Service and The Retail Market

NOTICE OF INQUIRY

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

The Commission is initiating an Inquiry to examine several issues relating to standard offer service and the retail competitive market in Maine. These issues were initially raised and identified for further consideration in the "Standard Offer Study and Recommendations" that we submitted to the Legislature last December. Issues fall into two broad categories: (1) those pertaining mainly to medium and large commercial and industrial (C&I) customers; and (2) those pertaining mainly to residential and small commercial customers.

II. BACKGROUND

In December 2002, the Commission submitted to the Maine Legislature the "Standard Offer Study and Recommendations Regarding Service after March 1, 2005" (Standard Offer Study, or Study). www.maine.gov/mpuc/new standard offer/sostudy-final.pdf. The Legislature had directed the Commission to conduct the Study to investigate and provide recommendations in several areas related to electricity retail competition and standard offer service. There were several findings and recommendations contained in the Study. In addition, the Commission identified several issues for further consideration. To assist us in this regard, as a first step we are seeking information and comments on the issues, as more fully described below, from competitive suppliers (CEPs), utilities, customers, and other interested persons.

III. ISSUES – MEDIUM AND LARGE C&I MARKET

As noted in the Standard Offer Study, because retail competition for medium and large C&I customers appears to be fairly well-developed, standard offer service should be designed to interfere as little as possible with the market, while at the same time provide a supply of last resort for customers who do not have alternative supply sources. We identified three aspects of the standard offer which warrant changes: (1) alignment of price changes with market changes; (2) opt-out fees and (3) treatment of customer credit risk.

A. Alignment of price changes

To sustain and further the development of the retail market, standard offer service prices for medium and large C&I customers should track market changes as closely as possible. This could be done by more frequent bid processes and fixed-prices for relatively short terms, e.g. semi-annually or quarterly, or it could be done by using a market index-based formula as the basis for prices. We wish to consider in this Inquiry the feasibility and relative advantages of various, specific index-based approaches.

So that we can consider the practical, as well as conceptual, implications of index-based standard offer prices, we ask commenters to provide the following:

- recommended approach(es) (specific and detailed) using market electricity prices as the index
- recommended approach(es) (specific and detailed) using natural gas prices as the index
- recommended approach(es) (specific and detailed) using other indices
- the relative advantages and disadvantages of each
- description of how each would be implemented, including the source of the index data and the timing of price adjustments, in particular when prices would be known by customers.

Commenters are also asked to address how frequently standard offer prices should change under an index-based approach and what the term length of service for a given supplier should be. Commenters may also comment on the use of indexed vs. fixed prices as a general matter, including effects on customers and potential bid evaluation and implementation issues.

B. Opt-out fees

Pursuant to Chapter 301, in certain situations medium and large C&I customers must pay an opt-out fee when they leave standard offer service to re-enter the market. The fee was adopted to discourage arbitrage between the market and standard offer service, but it may also discourage market entry more generally. In this Inquiry, we will consider whether Chapter 301 should be changed in this regard, in particular, whether the opt-out fee should be eliminated, redesigned or replaced. Commenters are asked to address this question generally, and to propose specific alternatives to the status quo if they believe changes should be made.

C. Customer credit

As noted in the Standard Offer Study, standard offer service should not provide a safe-haven for customers from credit and security requirements they would face in the retail market. Although there may be reasons why standard offer service cannot or should not be identical to CEP service in this regard, it may be desirable for the two services to be more similar than they are now.

In this Inquiry, we will identify differences between customer credit requirements in the market and for standard offer service, and consider whether and how to minimize such differences. We will identify mechanisms commonly used by CEPs to manage their receivables, e.g. security deposits, and consider to what extent similar mechanism should apply to standard offer service. We will also consider what financial incentives should exist to ensure standard offer receivables are properly managed by the T&D utilities with whom this responsibility now resides.

Commenters are asked to provide information on how suppliers typically handle customer credit risk in this market sector and comment on what changes should be made to standard offer service to minimize unnecessary differences. Commenters should also address the question of whether increased financial incentives are necessary to ensure that T&D utilities properly manage standard offer receivables, and provide recommendations as to how the proper incentives can be established.

IV. ISSUES – RESIDENTIAL AND SMALL COMMERCIAL MARKET

In contrast to the medium and large C&I customer market, to date there has been little retail competition for small customers. (The term “small customers” includes all residential customers, and commercial customers with peak demands generally below 20 –25 kW. This sector is also referred to as the “mass market.”) Suppliers have thus far focused on larger customers because these accounts produce a greater amount of revenue relative to the customer acquisition and administration costs. In the Standard Offer Study we identified several measures to increase access by suppliers to mass market customers and reduce customer acquisition costs. In this Inquiry, we will examine these measures in greater depth. Commenters are asked to address the issues as described below.

A. Provision of customer lists and customer data to suppliers

Commenters should address whether suppliers should be able to obtain the customer lists and mailing addresses that the T&D utilities use for billing. Additionally, commenters should address what other customer information should be made available to suppliers, in particular, whether customer account numbers and usage and credit history should be made available. Comments should cover the usefulness of the information in terms of developing the competitive market, as well as the feasibility and customer privacy implications of making the information available to suppliers. Additionally, commenters should describe any additional consumer protection measures that should be adopted to protect against misuse of the information, e.g. by slamming. (For example, as noted in the Standard Offer Study, in some states the T&D utilities must notify each customer when a supplier enrolls their account.) Finally, commenters are asked to suggest processes that would allow customers to opt-off any list or designate that certain information is not to be released.

B. Supplier access to customers via T&D utility bills

As indicated in the Study, another potential way for suppliers to access the mass market is through T&D utility bills. Commenters are asked to comment on the usefulness of this as a marketing device. In particular, is it preferable (e.g. more effective, less costly), to disseminate marketing materials within the T&D bill envelopes, or by separate mailings? If separate mailings are preferable, what are the benefits (if any) of having the utilities handle the mailings rather than the suppliers?

C. Disclosure labels

In the Study, we also noted that there may be some advantages to requiring the T&D utilities to produce and distribute disclosure labels for any suppliers that want them to, rather than just for standard offer suppliers. We ask for comment on whether this would likely to be a useful service for suppliers. We also ask for comment on how the fees charged for this service should be set, specifically, whether fees should differ between standard offer and non-standard offer suppliers or whether they should be averaged.

We also indicated in the Study that we would further consider a proposal made by Competitive Energy Services (CES) whereby "customer service costs" that may be reflected in CEP prices but not in standard offer prices (for example, costs for marketing and customer acquisition), would be offset by reductions in the T&D bills of customers that switch to competitive suppliers, thereby enabling CEPs to more easily attract customers from standard offer service. We ask for comment on the approach generally, as well as further detail on how such an approach would be implemented, including how the revenue loss from any "customer service cost" offset would be recovered.

Finally, commenters may suggest other changes to our rules and processes that relate to the matters at issue in this Inquiry.

V. SCHEDULE

Comments should be filed no later than March 19, 2003. Copies of comments should be filed electronically and will be available via the Internet in the Commission's Virtual Case File. A technical conference will be held on March 25, 2003 at 9:30 a.m. in the Commission's Hearing Room.

Dated at Augusta, Maine, this 5th day of March, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond